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# Yarra Australian Bond Fund

## Net returns as at 30 September 2022

	1 month %	3 months %	6 months %	1 year %	2 years % p.a.	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception % p.a.
Fund growth return (net)	-1.85	-0.94	-5.19	-12.49	-8.03	-5.64	-2.46	-1.95	-0.45
Fund distribution return (net)	0.00	0.00	0.00	0.00	0.89	1.92	3.11	4.23	5.21
Total Fund return (net)	-1.85	-0.94	-5.19	-12.49	-7.13	-3.72	0.64	2.28	4.76
Benchmark	-1.36	-0.64	-4.43	-11.36	-6.58	-3.42	0.75	2.31	4.77
<b>Excess return</b>	<b>-0.49</b>	<b>-0.30</b>	<b>-0.77</b>	<b>-1.13</b>	<b>-0.56</b>	<b>-0.29</b>	<b>-0.11</b>	<b>-0.03</b>	<b>-0.01</b>

Source: BNP Paribas. Fund growth return is the change in redemption prices over the period. Fund distribution return equals Total Fund Return minus Fund growth return. Fund net returns are post fees, pre tax using redemption prices and assume reinvestment of distributions. Past performance is not an indicator of future performance. Benchmark: Bloomberg AusBond Composite 0+YR Index. Inception date: July 2000.

After fees and expenses, the Fund returned -1.85% underperforming the benchmark by 49 basis points (bps).

The Fund held an overweight duration position throughout the month as the market continues to price higher terminal rates than we believe probable. The Australian bond market has become extremely volatile over the past six months as it comes to grips with how fast and how far the RBA will move the cash rate. The market pricing expects a cash rate of approximately 3.5% in 6 months' time, which would be one of the fastest cash rate moves in the past 20 years. During the month, yields continued their moves higher, with 10 year bonds ending the month at 3.915%. The Fund holds a steepening curve positioning, with the majority of its duration exposure in 3 year bonds and bank bills, as the front-end of the bond curve is extremely steep. Overall duration was a key detractor for the month.

The Fund currently favours 5-10 year supranational issuers, with a focus on government guaranteed issuers and holds an underweight to Semi-government issuers. The Semi-government position is short in the 5-10 year maturities, as this is where the RBA concentrated their Quantitative Easing (QE) buying and is the most prone to spreads widening. Credit spreads widened in September, continuing their trend of the past few months. The Fund held an overweight to credit, which has been focussed in the 0-3 year maturities in order to keep the effects of spread volatility low. Credit positioning was negative for the month as spread widening wiped out the additional running yield.

### Risk Characteristics

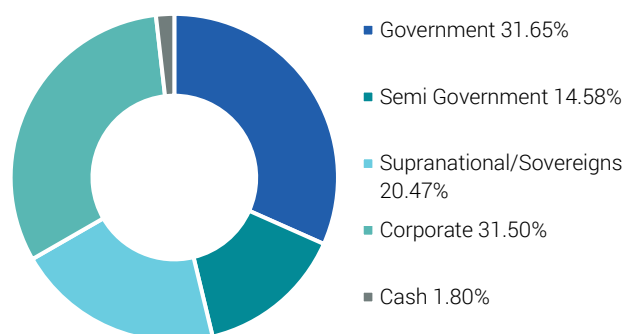
3 Year Volatility (p.a.)	5.81%
3 Year Tracking Error (p.a.)	0.65%

### Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.99	5.19	0.80
Corporate Spread Duration (yrs)	0.85	0.27	0.58
Total Spread Duration (yrs)	3.51	2.00	1.51
Yield to Maturity (%)	4.71	3.99	0.72
Average Coupon (%)	2.49	2.66	-0.18
Weighted-average Credit Rating <sup>#</sup>	A+	AA	

<sup>#</sup>Standard & Poor's

### Portfolio Asset Allocation



## Market Commentary

The Australian bond market (as measured by the Bloomberg AusBond Composite 0+ Yr Index) returned -1.36% over the month. Australian bonds sold-off as 3-year government bond yields rose by 31 basis points (bps) to 3.52%, while 10-year government bond yields rose by 29 bps to 3.89%. Short-term bank bill rates were also higher. The 1-month rate rose 67 bps to 2.71%, the 3-month rate was up 60 bps to 3.06%, and the 6-month rate was up 56 bps to 3.57%. The Australian dollar was weaker, closing the month at USD 0.64.

Monetary policy settings continued to tighten as the Reserve Bank of Australia (RBA) raised the cash rate target by another 50 bps, to 2.35% in September. The RBA expects further tightening in the process of normalising monetary conditions as they are committed to ensuring that inflation returns to the target range of 2-3%.

Domestic economic data releases in September were mixed. The Q2 inflation rate was up 1.8%, while the annual rate rose to 6.1% due to an acceleration in prices of food and further rises in cost of both fuel and dwelling. The Australian economy expanded by 0.9% in Q2, slightly below market forecasts of 1.0%. This was the third straight quarter of growth, marking the first full quarter of reopened domestic and international borders since the pandemic began. Employment rose by 33,500 positions in August, after a drop of 41,000 a month earlier. The unemployment rate was at 3.5% in August, compared to July's record low of 3.4%, the first increase in ten months. The NAB Survey of Business Conditions strengthened by 1 point to 20 index points in August. Business confidence rose 4 points in August, to 10 index points. Retail sales were up 0.6% in August. CoreLogic's National Home Value Index recorded a fifth consecutive month of value declines, down 1.4% in September.

## Top 10 Issuers

Security	Rating
Commonwealth Government Bonds	AAA
National Housing Finance & Investment Corporation	AAA
Queensland Treasury Corporation	AA+
South Australian Govt Financial Authority	AA+
Export Finance & Insurance Corp	AAA
New South Wales Treasury Corporation	AA+
Athene Global Funding	A+
Treasury Corporation of Victoria	AA
Asian Development Bank	AAA
Apollo Trust	AAA

All of the above portfolio securities are Australian dollar denominated issues and include fixed interest and FRNs.

## Market Outlook

The global economy faces a number of challenges, including the continuing war in Ukraine, ongoing disruptions from COVID-19, particularly in China, and declining consumer purchasing power due to higher inflation. The Australian economy has remained resilient however, and the recovery is ongoing despite the effects of ongoing COVID-19 cases.

The RBA revealed revised economic forecasts in August. The RBA's central economic forecasts for GDP have fallen, showing expectations for 3.25% GDP growth in 2022 and 1.75% over 2023 and 2024. Expectations around the unemployment rate are that it will fall below the current reading of 3.50% in coming months, but then rise to 4.00% at the end of 2024 as growth slows. Inflation is expected to rise further in coming quarters but then moderate. CPI inflation is now expected to reach 7.75% over 2022, moderating to above 4.00% over 2023 and around 3.00% over 2024.

The RBA is in the process of withdrawing the extraordinary monetary support that was initiated during the pandemic. The RBA has acknowledged that further interest rates rises are needed but will closely monitor the balance of risks as it determines the timing and extent of future rate increases. Despite the increasing cash rate, we maintain our view that the markets expectation of the terminal cash rate is still too high.

More recently economic data has begun slowing in the United States and Europe, creating concerns that recessionary conditions could be occurring. There is some merit to these expectations as the pace at which global central banks have been removing policy accommodation is the fastest in decades. While the economic situation in Australia is robust, any concerns seen offshore will likely influence our market over the next few quarters.

## Fund Objective

The Fund aims to outperform the Bloomberg AusBond Composite 0+YR Index over any three-year rolling period, before fees, expenses and taxes.

Key Facts	
<b>Responsible Entity</b> Yarra Investment Management Limited	<b>Management Cost</b> 0.30% p.a.
<b>APIR Code</b> TYN0104AU	<b>Buy/Sell Spread</b> 0.05%/0.05%
<b>Portfolio Managers</b> Darren Langer Chris Rands	<b>Distribution Frequency</b> Quarterly
<b>Fund Size</b> AUD 209.40 million	<b>Benchmark</b> Bloomberg AusBond Composite 0+YR Index
<b>Minimum Investment</b> AUD 10,000	

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## Contact Us

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